
EXPOSURE DRAFT

HOSTING SERVICES

PROPOSED INTERPRETATION

AICPA PROFESSIONAL ETHICS DIVISION

May 16, 2016

Comments are requested by July 18, 2016

Prepared by the AICPA Professional Ethics Executive Committee for comments from persons interested in independence, behavioral, and technical standards matters.

Comments should be addressed to Lisa A. Snyder, Director of the Professional Ethics Division, at lsnyder@aicpa.org

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May 16 2016

This exposure draft contains an important proposal for review and comment by the AICPA's membership and other interested parties regarding a pronouncement for possible adoption by the Professional Ethics Executive Committee (PEEC). The text and an explanation of the proposed pronouncement are included in this exposure draft.

After the exposure period is concluded and the PEEC has evaluated the comments, the PEEC may decide to publish the proposed pronouncement. Once published, the pronouncement will become effective on the last day of the month in which it is published in the *Journal of Accountancy*, unless otherwise stated in the pronouncement.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by July 18, 2016. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at <http://aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/Pages/CommentLettersFortheMay16,2016HostingServicesExposureDraft.aspx>. Comments received will be considered by the PEEC at its meeting on November 3-4, 2016.

Please send comments to Lisa A. Snyder, Director of the Professional Ethics Division, via e-mail at lsnyder@aicpa.org

Sincerely,

Samuel L. Burke, *Chair*
AICPA Professional Ethics Executive
Committee

Lisa A. Snyder, *Director*
AICPA Professional Ethics Division

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Explanation for the Proposed New Hosting Services Interpretation

The PEEC is exposing for comment an independence interpretation that provides guidance to members on the provision of hosting services to clients.

The PEEC believes hosting services involve situations where a client engages a member to have custody or control of data or records that the client uses to conduct its operations. As it is management's responsibility to have custody and control over its assets, the PEEC believes providing hosting services creates threats to independence that are not at an acceptable level and cannot be reduced to an acceptable level by the application of safeguards; therefore, impairing independence.

An important component to this interpretation is that a member is not considered to be hosting an attest client's data or records when the member has access to, or copies of, such data or records as part of providing permitted non-attest services to the attest client; rather, the attest client must engage the member to host its data or records.

As members may have access to, or copies of, an attest client's data or records for various reasons, the proposed interpretation also contains some examples of situations that would not constitute providing hosting services. For example, a member would not be considered to be providing hosting services, and independence would not be impaired, when the member uses a portal to exchange data or records with an *attest client* provided the *member* has not been engaged to retain custody or control of the data or records.

Effective Date

PEEC believes a six-month delayed effective date is necessary for members to complete any existing contracts they may have in place to provide hosting services.

Text of Proposed Hosting Services Interpretation

[Terms in italic only are defined terms]

1.295.143 - *Hosting Services*

01. An *attest client's* management is responsible for maintaining custody and control over its assets which includes its data and records. When a *member* is engaged to provide services that involve the *member* having custody or control of data or records that the *attest client* uses to conduct its operations (hosting services) the self-review and management participation *threats* to the *member's* compliance with the "[Independence Rule](#)" [1.200.001] would not be at an *acceptable level*, and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired*.
02. Examples of hosting services that would *impair independence* include these:
 - a. Acting as the *attest client's* business continuity or disaster recovery provider.
 - b. Housing the production environment of the *attest client's* system (financial or non-financial) on the *member's firm's* servers. For example, the *firm* hosts the *attest client's* financial system or website on *firm* servers.
 - c. Keeping the *attest client's* data or records in the *member's* office for safekeeping. For example, the *attest client's* original lease agreements or other legal documents are stored in the *member's* office.
03. Following are examples of situations in which a *member* would not be considered to be hosting data or records that the *attest client* uses to conduct its operations and would not *impair independence*:
 - a. Retaining a copy of an *attest client's* data or records as documentation to support a service provided, for example, the *member* retains a copy of the payroll data that supports a payroll tax return the *member* prepared or a copy of a bank reconciliation that supports attest procedures performed on the cash account.
 - b. Retaining a copy of a work product that the *member* was engaged to prepare, for example, a tax return that the *member* was engaged to prepare.
 - c. Electronically exchanging data or records with or on behalf of an *attest client* provided the *member* has not been engaged to retain custody or control of the data or records on behalf of the *attest client*. For example, a *member* and an attest client may use a portal to exchange data and records related to professional services the *member* has been engaged to provide or to deliver the *member's* work product to third parties.
 - d. Licensing to an *attest client* the use of software into which the *attest client* inputs its data and the software provides the *attest client* with an output that the *attest client* is responsible for maintaining. The software must perform an activity that if performed by the *member*, would not *impair independence*.

Effective Date

04. This interpretation is effective [6 months from the date it is published in the *Journal of Accountancy*].